Budgets and planning

As you implement plans for your agency's future, you will need to fund those plans. Budgeting is the most effective way to control your cash flow, allowing you to invest in new opportunities at the appropriate time.

You most likely split your budget up between different areas such as commissions, overhead expense, operating expenses, marketing etc. As money moves in different directions through your agency, budgets are a vital tool in ensuring that you stay in control of expenditure.

Tying your plan to your budget helps you:

- Control your finances
- Ensure you can continue to fund your current commitments
- Make confident financial decisions and meet your objectives
- Ensure you have enough money for your future projects

It outlines what you will spend your money on and how that spending will be financed. However, it is not a forecast. A forecast is a prediction of the future whereas a budget is a **planned outcome** of the future - defined by your plan - which your agency wants to achieve.

Benefits of a business planning budget

There are a number of benefits to drawing up a business-planning budget, including being better able to:

- Manage your money effectively
- Allocate appropriate resources to projects
- Monitor performance
- Meet your objectives
- Improve decision-making
- Identify problems quickly
- Increase staff motivation

Creating a budget

Creating, monitoring and managing a budget can help you allocate resources where they are needed, so that your business remains profitable and successful. It need not be complicated. You simply need to work out what you are likely to earn and spend in the budget period.

Begin by asking these questions:

- What are the **projected sales** for the budget period? Be realistic - if you overestimate, it will cause you problems in the future.
- What are the **direct costs** of operation - i.e. salaries, commissions to staff or subcontractors?
- What are the **fixed costs** or overheads?

*You should break down the **fixed costs and overheads** by type, egg:*

- Cost of premises - e.g. rent or mortgage, taxes, maintenance
- Staff costs - e.g. wages, benefits, employee insurance
- Utilities - e.g. heating, lighting, telephone, internet
- Printing, postage and stationery
- Technology expenses
- Equipment costs and maintenance
- Advertising and promotion
- Travel and subsistence expenses
- Legal and professional costs, including other insurance

Your agency may divide and define expenses differently, but you get the idea…

Using your overall figures for income and expenditure, you can then separate out revenue and expense attributed directly to the plan. If plan associated costs put you too far out of balance, you can work out ways to reduce them or make cuts elsewhere. You can see if you are likely to have cash flow problems, giving yourself an opportunity to do something about them.

When you've made a budget, you should stick to it as far as possible, but review and revise it as needed. Successful agencies often have a rolling budget, so that they are continually budgeting, e.g. for a year in advance.

Key steps in drawing up a budget

There are a number of key steps you should follow to make sure your budgets and plans are as realistic and useful as possible.

Make time for budgeting

If you invest some time in creating a comprehensive and realistic budget, it will be easier to manage and ultimately more effective.

Use last year's figures - but only as a guide

Collect historical information on sales and costs as they are available - these could give you a good indication of likely sales and costs. But it's also essential to consider what your sales plans are, how your sales resources will be used and any changes in the competitive environment.

Create realistic budgets
Bring together historical information, your business plan and any changes in operations or priorities to budget for overheads and other fixed costs.

Make sure your budget contains enough information for you to easily monitor the key drivers of your business such as sales, costs and working capital.

Involve the right people
It's best to ask staff with financial responsibilities to provide you with estimates of figures for your budget - for example, sales targets, production costs or specific project control. If you balance their estimates against your own, you will achieve a more realistic budget. This involvement will also give them greater commitment to meeting the budget.

What your budget will need to include

- An indicator of the costs and revenues linked to each of your activities
- A way of providing information and supporting management decisions throughout the year
- A means of monitoring and controlling your activities, particularly if you analyze the differences between your actual and budgeted income

Benchmarking performance
Comparing your budget year on year can be an excellent way of benchmarking your agency's results - you can compare your projected figures with previous years to measure your performance.

Key performance indicators
To boost your agency's performance you can use and monitor the key "drivers" of your business - a driver is something that has a major impact on your business. There are many factors affecting every agency's performance, so it is vital to focus on a handful of these and monitor them carefully.

The three key drivers for most businesses are:

- Sales
- Costs
- Working capital

Any trends towards cash flow problems or falling profitability will show up in these figures when measured against your budgets and forecasts. They can help you spot problems early on if they are calculated on a consistent basis.

Review your budget regularly
To use your budget effectively, you may need to review and revise it frequently. This is particularly true if your agency is growing and you are planning to move into new areas.

Using an up-to-date budget enables you to be flexible, and lets you manage your cash flow and identify what needs to be achieved in the next budgeting period.

<u>Two main areas to consider</u>

1. **Your actual income** - each month compare your actual income with your sales budget, by:

    - Analyzing the reasons for any shortfall - for example lower new sales volumes, soft market, underperforming areas, loss of a key account, etc.
    - Considering the reasons for a particularly discrepancy - for example whether your targets were too high
    - Comparing the timing of your income with your projections and checking that they fit

    Analyzing these variations will help you to set future budgets more accurately and also allow you to take action where needed.

2. **Your actual expenditure** - regularly review your actual expenditure against your budget. This will help you to predict future costs with better reliability. You should:

    - Look at how your fixed costs differed from your budget
    - Check that your variable costs were in line with your budget - normally variable costs such as commissions adjust in line with your sales volume
    - Analyze any reasons for changes in the relationship between costs and revenue

A budget is not the law; it is to be used as a means of accountability and to ensure financial integrity. A budget is not to be used a ceiling to spending, and a method of absolute control. And finally a budget is not a guarantee to financial and business success.

Additional information on this and other planning topics can be located through the RESOURCES section on the main menu.